

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 NSC-05

SS-15 STR-04 CEA-01 /094 W

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R 052315Z JAN 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2139

INFO TREASURY WASHDC

UNCLAS MEXICO 0024

EO 11652: NA

TAGS: EFIN MX

SUBJECT: BANK OF MEXICO LOWERS DEPOSIT INTEREST RATES

1. BANK OF MEXICO ISSUED CIRCULAR ON DEC. 30, LOWERING INTEREST RATES PAID ON DEPOSITS BY MEXICAN FINANCIAL INSTITUTIONS EFFECTIVE JAN. 1. NEW DEPOSIT INSTRUMENT, ONE-MONTH CERTIFICATE OF DEPOSIT INTRODUCED. REASONS FOR DECLINES SAID TO BE LOWER INTEREST RATES IN WORLD MARKETS AND CHANGES IN TAX WITHHOLDING RATES ON INTEREST PAYMENTS.

2. NET INTEREST RATE ON SIX-MONTH CERTIFICATE OF DEPOSIT IN EXCESS OF \$80,000 FROM 11.5 PERCENT PA TO 10.75 PERCENT PA., NET INTEREST RATE ON THREE-MONTH CD LOWERED FROM 11.0 PERCENT PA TO 10.0 PERCENT. THE NEW ONE MONTH CD IN DENOMINATIONS ABOVE \$8,000 WILL YIELD EIGHT PERCENT PA. NONOS FINANCIEROS, WHICH ARE ISSUED IN DENOMINATIONS AS LOW AS \$80, AND ARE ROUGHLY COMPARABLE TO PASSBOOK SAVINGS ACCOUNTS WILL HAVE A NET YIELD OF 7.5 PERCENT TO 8.75 PERCENT PRIOR TO JAN. 1. INTEREST RATE REDUCTIONS GREATER FOR SHORT-TERM THAN FOR LONGER-TERM MATURITIES.

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3. INTEREST RATE YIELDS ON DOLLAR-DENOMINATED INSTRUMENTS

WERE ALSO LOWERED, BY ONE PERCENTAGE POINT. THREE MONTH CD NOW YIELDS U.5 PERCENT; SIX-MONTH CD 8 PERCENT AND ONE YEAR CD 8.5PERCENT.

4. WITHHOLDING TAX RATES ON FIXED INCOME SECURITIES WERE ALTERED BY YEAR-END LEGISLATION. NUMBER OF RATES WERE REDUCED TO TWO: 21 PERCENT ON BEARER SECURITIES AND 15 PERCENT ON NOMINATIVE SECURITIES, WHICH IN THE CASE OF BANK DEPOSITS APPLY GENERALLY TO CORPORATIONS. SAME LEGISLATION INCREASED WITHHOLDING TAX ON INTEREST PAYMENTS TO FOREIGN FINANCIAL INSTITUTIONS TO 21 PERCENT FROM 10 PERCENT.

5. COMMENT: LOWER INTEREST RATES AT THIS STEP, WHEN MEXICO NEEDS TO ATTRACT SUBSTANTIAL FOREIGN CAPITAL AS WELL AS DISCOURAGE CAPITAL OUTFLOW, IS SOMEWHAT SURPRISING, BUT PERHAPS JUSTIFIED BY DECLINING DEPOSIT RATES FOR CERTIFICATES OF DEPOSIT IN NEW YORK AND LONDON. INCREASE IN WITHHOLDING TAXES ON INTEREST PAYMENTS TO FOREIGN FINANCIAL INSTITUTIONS ALSO SURPRISING, AND FOREIGN BANK REPS HERE ARE STILL ASSESSING THIS MOVE. APPARENTLY MOST INTEREST RATES ARE FIXED NET OF TAXES OR CAN BE READJUSTED IF TAX RATES CHANGE. BURDEN WOULD THEN FALL ON BORROWERS WHO, PERHAPS, WOULD NOT BE PAYING GROSS INTEREST CHARGES IN EXCESS OF LAT '74 EARLY '75 RATES. ONE BANKER ALSO OPINED THAT MEXICAN AUTHORITIES MAY HAVE BEEN INFLUENCED BY INCREASE IN BRAZIL'S WITHHOLDING TAX ON INTEREST PAYMENTS ABROAD THAT BECAME EFFECTIVE LAST YEAR.

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